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SUBJECT: CHAD: MULTI-DONOR MISSION ON PUBLIC FINANCE AND  
OIL REVENUE MANAGEMENT

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SUMMARY:  
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¶1. (SBU) The second Multi-Donor Mission to Chad since April opened on June 21. A week of meetings with the GOC will seek to settle on the framework of a "global agreement" on the issues of public finance and oil revenue management. This would replace the "interim agreement" the GOS and World Bank reached in April, and open the door to normalized relations with the Bank. Tensions between the Bank's team and GOC representatives were evident in the discussion of the terms of reference for talks on oil revenue management. The Bank will open the tap for a first tranche transfer of \$50 million within roughly two weeks; future tranches will be dependent upon progress toward a "global agreement". END SUMMARY

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OPENING THE MONEY TAP  
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¶2. (SBU) Chad's second Multi-Donor Mission since April opened in N'Djamena on June 21, seeking particularly to resolve tensions over the GOC's January modification of its oil revenue management scheme. The opening day was spent discussing terms of reference for the coming week of talks aimed at achieving within the next three months a "global agreement" on (a) revisions to Chad's Poverty Reduction Strategy Paper (PRSP), (b) implementation of a Plan of Action for Modernizing Public Finances (PAMFIP), and (c) development of a new framework for the management of oil revenues to "take into account recent evolutions in international markets" (according to conference documents). Taken with the approval of a revised 2006 central government budget conforming to the GOC's objectives for poverty reduction -- which was to go to the Chadian Assembly June 21 -- the GOC and Donors seek to resolve the outstanding issues central to the April "interim agreement" between the Bank and Chadian authorities that allowed for gradual resumption of Bank

operations in Chad. A global agreement on all these questions would fully normalize Bank relations with Chad, and allow for disbursement of oil royalties due to Chad to date.

¶3. (SBU) In her introductory remarks, the World Bank's Marie Françoise Marie-Nelly (Program Manager -- Chad-Cameroon Pipeline Cluster) noted that, as discussions continued, the Bank would begin transferring funds from the direct oil revenues (royalties and dividends) deposited in Chad's frozen offshore account. The transfers were to be effected in three tranches. She estimated the first, approximately end-June, would amount to around \$50 million; the two successive tranches, at something less than the first, would come on/about July 21 and August 31. Release of these funds would be contingent on progress toward, and ultimately finalization of the global agreement.

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PRSP REVISIONS,  
PUBLIC FINANCE MANAGEMENT  
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¶4. (SBU) Discussions of terms of reference for revising Chad's PRSP showed considerable gaps in the GOC's ability to document progress toward achieving poverty reduction objectives. In fact, the PRSP technical secretariat's economist said that he had little statistical data at all, given that no funds had been set aside to build data collection capability. He proposed that revisions were nonetheless a good idea, given that the first triennial implementation phase of 2003-2006 was coming to a close, warranting the integration of an updated macroeconomic framework, and consideration of the results of a recent High

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Inter-ministerial Commission's observations on governance, sustainable growth, and human resource development. That said, commentary from the floor noted that the target date proposed for finalizing revisions -- May 2007 -- was too far away, and it would be better to try to document what had or had not been done over the last three years, instead of creating new goals.

¶5. (SBU) Regarding the Plan of Action for Modernizing Public Finances, Chad's Technical Secretariat Coordinator for PAMFIP showed that virtually nothing had been accomplished on any of the ambitious reforms envisaged when the plan was approved in July 2005. He suggested that the goals of the week of discussion to come should be to agree on priority actions for the next 2-3 years, and to achieve an agreement in principle between the GOC and donors on the conditions for implementation of technical assistance.

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OIL REVENUE MANAGEMENT  
SPARKS LIVELY EXCHANGES  
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¶6. (SBU) Setting the stage for what seems set to be the most controversial issue, the Multi-Donor Mission's terms of reference paper noted that the April interim agreement had required a new global framework on oil revenue management to be agreed within three months (putting a rough due date at end-July). Four key stages in the technical work are proposed: (1) preparation of technical data; (2) data analysis to investigate appropriate spending strategies from revenue streams to avoid dramatic swings in spending and financial disequilibria (the creation of "automatic stabilizers"), as well as the impact of revenue saving mechanisms on overall public finance management; (3) formulation of a new oil revenue management scheme, based on data and analysis above; and (4) legal codification of the new scheme.

¶7. (SBU) Discussion from the floor quickly turned to thinly veiled suggestions that the Bank and the oil exploitation

consortium were not being forthcoming with the GOC on several key issues. One was the significant difference in production levels from those initially expected (currently averaging some 175,000 barrels/day, vice an originally estimated 225,000 bbls/day). Another was the method by which the selling price of Chad's oil production was calculated against the benchmark product (North Sea Brent), which to some Chadians seemed to produce a larger and larger discount for Chadian oil against the benchmark as global petroleum prices have climbed.

18. (SBU) Chad's Counselor to the Minister of Finance called into question existing mechanisms for repatriating direct revenues through the off-shore account, calling them slow and opaque. He said that, with the experience of a period of production now completed, it is clear that the original repatriation scheme needs "improvement", based on a better understanding of the production profile, and a re-evaluation of the pricing structure. He referred to "the unhappy experience we have had with the mechanism of direct revenue repatriation through the Citibank off-shore account," and called for its redesign.

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COMMENT  
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19. (SBU) A quick review of Chad's development documents show that the same types of commitments to poverty reduction and growth, and to public finance management, have been made since at least the IMF's approval of Chad's first Poverty

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Reduction and Growth Facility December 1999. The results of discussions on PRSP revisions and re-energizing public finance management will be important to the extent that they are indicators of an aspect of Chad's political will to improve transparency and confront poverty. But the main event is going to be the elaboration of a new oil revenue management scheme. There is considerable mistrust between Bank experts and GOC representatives that will not make it easy to meet the end-July deadline for an agreement on this point. We should prepare for the possibility that failure to resolve this issue may push both the Bank and the GOC into taking positions that would jeopardize their April interim agreement to resume Bank operations in Chad. END COMMENT.

10. (U) Tripoli Minimize Considered.  
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